

Report
of the
Examination of
Care-Plus Dental Plans, Inc.
Wauwatosa, Wisconsin
As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 30, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CARE-PLUS DENTAL PLANS, INC
Wauwatosa, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Care-Plus Dental Plans, Inc (the LSHO) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2001, and included a review of such 2002 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing
- Underwriting

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the LSHO's operations is contained in the examination work papers.

The LSHO is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The Care-Plus Dental Plans, Inc., can be described as non-profit group model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as ". . . a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618 that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the group model, the LSHO contracts with a sponsoring clinic to provide primary and specialist services. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated May 23, 1983, by Dr. John G. Gonis, under ch. 613, Wis. Stat., and commenced business May 23, 1983. The LSHO is controlled by Dr. John Gonis, who is the chairman for the Board of Directors, only one of which, is affiliated both with Dental Associates and Dental Management which governs the operation of Care-Plus and establishes Corporate policy. The Board of Directors elects the officers of Care-Plus who make the day-to-day business decisions for Care-Plus.

Dental Associates has subcontracted all the administrative duties. The following entities have contracted to fulfill the administrative duties.

Dental Associates, Ltd.	Administrative Services (Milwaukee Northwest)
Dental Associates, Ltd.	Administrative Services (Milwaukee South Central)
Dental Associates, Ltd., Fond du Lac	Administrative Services (Fond du Lac)
Dental Associates, Ltd., Fox Valley	Administrative Services (Appleton)
Dental Associates, Ltd., Green Bay	Administrative Services (Green Bay)
Dental Associates, Ltd., Kenosha	Administrative Services (Kenosha)

Care-Plus provides primary and specialty care through its provider, Dental Associates, Ltd. Of Wisconsin (Dental Associates). Dental Associates has 6 dental centers in the south / eastern / central half of Wisconsin and employs over 85 primary care providers and 36 specialty providers. Care-Plus does not require the enrollee to choose a primary care provider as a "gatekeeper", however, Care-Plus does encourage the selection of one dentist as the enrollee's primary dentist for all general dental care. An enrollee does not need a referral from a primary care provider in order to see one of the specialty providers.

Dental Associates has employment agreements with its 121 dentists and specialists.

With the exception of the term, vacation, dues, allowance, and compensation, the agreements are identical for all dentist professionals. The contract terms are generally three years, but Care-Plus has also contracted with dental professionals for one, two, four, and five-year terms.

Dental Associates employs both full-time and part-time dentists. Part-time dentists are compensated on an hourly basis, while full-time dentists are either salaried or paid on an incentive program. Incentives are calculated based upon a percentage of agreed fee schedules for each procedure code less laboratory fees. Incentives are paid on a quarterly basis, when applicable.

All dentists are required to provide services on a 24-hour basis, if necessary. Agreements with individual dentists do not contain any withhold or risk sharing provisions. The individual employment agreements do contain an indemnification clause whereby the individual dentist and Dental Associates hold each other harmless from all liabilities and costs resulting from wrongful or negligent acts and omissions of the dentist or Dental Associates as the case may be.

The provider contract between Care-Plus and Dental Associates transfers risk to Dental Associates. The contract contains an indemnification clause whereby Dental Associates holds Care-Plus harmless from all claims, liabilities, and costs resulting from dental or other services which Dental Associates provides to subscribers. Dental Associates provides dental benefits and administrative services on behalf of Care-Plus subscribers for the lesser of the following:

1. The amount of credits and benefits under Care-Plus policies which Dental Associates applies to subscribers' accounts during the fiscal year; or
2. 100% of the net revenue of Care-Plus remaining after deduction of:
 - a) Any amount paid by Care-Plus to other providers
 - b) All other expenses

Either party with 90 days' written notice can terminate the contract between Care-Plus and Dental Associates on an anniversary date of the agreement.

According to the business plan, the LSHO's service area is comprised of the following counties: Milwaukee, Kenosha, Brown, Outagamie, and Fond du Lac.

The LSHO offers a limited range of health care coverage, which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

- Diagnostic
- Preventative
- Restorative
- Fixed Prosthetics
- Removable Prosthetics
- Endodontics
- Oral Surgery
- Orthodontics
- Periodontics

The LSHO currently markets to groups and individuals. The LSHO uses outside agencies and pays a 3% to 5% commission on new and renewal business. The Care-Plus products are as follows:

1. Care-Plus Prepaid – managed care sold to groups.
2. Care-Plus Supplemental – individual policies designed to supplement traditional dental indemnity plans.
3. Care-Plus Gold – individual policies for persons over 55 years old without any other dental coverage.
4. Care-Plus VIP – individual policies for persons with no other dental insurance.

Some of the common limitations or exclusions listed in the detail of these policies include nonemergency dental services provided by a nonparticipating provider, dental services, which are primarily for cosmetic purposes, orthodontic treatment, implants, TMJ, duplicate prosthetic devices or appliances, and gold foil or precious metal restorations.

The LSHO uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group. The base rate is adjusted quarterly for inflation and other trending factors.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. The president, who presides over the board in accordance with the LSHO bylaws, is elected annually. Each director is elected to serve a three-year term. Officers for the board are elected at the board's annual meeting. The board members currently receive \$200 per board meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Martha Love Milwaukee, WI	Retired	05/05/2002
Richard Presser South Milwaukee, WI	Retired	5/05/2002
Bill VanderHeyden St. Francis, WI	Retired	05/05/2002
Dr. John Gonis Lake Forest, IL	Chairman – Dental Associates	08/26/2003
Fred Praxel South Milwaukee, WI	Retired	08/26/2003
Leon Towne Wisconsin Rapids, WI	Vice Pres./Regional Director – UPIU	05/27/2003
Lyle Balistreri Wauwatosa, WI	President-Milwaukee Building Trades Council	08/21/2004
Joseph Kiriaki Racine, WI	Business Rep – UAW Internat'l Union	08/21/2004
Daniel Welch Mukwonago, WI	President – UFCW – Local 1444	08/21/2004

Committees of the Board

The LSHO's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Grievance Committee Permanent Members

Anthony G. Vastardis, Chair
John H. Krause

Rotating Members (Dental Directors)

Dr. Bartley Bell
Dr. James Cuddy
Dr. Frank Maritato
Dr. John Zweig
Dr. Richard Kling
Dr. Gus Gari

The grievance committee meets upon demand; for any specific case, the committee consists of Anthony Vastardis, John Krause, and dental director of the facility where the particular grievance had originated.

Officers of the LSHO

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	Compensation
Dr. John Gonis	Chairman of the Board	\$ -0-
Anthony Vastardis	President	\$ -0-
John Krause	V.P. Marketing	\$ -0-
Kurt Schmidt	Treasurer & Secretary	\$ -0-

The LSHO's officers receive no compensation from Care-Plus. The officers do receive compensation from affiliates. As noted in the section of this report titled History and Plan of Operations, Dental Associates has the direct contractual responsibility to provide for the management of Care-Plus. However, Dental Associates has subcontracted with affiliates who actually perform the duties required for the daily operation of the individual clinic that serve Care-Plus insureds. Each affiliate manages one of the six clinic locations.

The manager of each clinic agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing and MIS. Each subcontracting company receives 99% of the net income associated with its clinic. Dental Associates and the subcontracting companies may terminate the agreement upon 60 days' written notice.

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

The LSHO has filed an irrevocable letter of credit in the amount of \$900,000 and \$1,000,000 to satisfy the surplus requirements under Wisconsin Statutes. In 2001 the \$1,000,000 financial solvency bond was not renewed and the \$1,000,000 LOC replaced it to satisfy the surplus requirement.

An LSHO, which provides hospital services, must demonstrate that, in the event of insolvency, enrollees hospitalized on the date of insolvency will be covered until discharge. This does not apply to this LSHO.

Corporate Insurance Coverage

The LSHO is provided with corporate insurance coverage under the contracts listed below. It was noted that Director's and officer's liability coverage and professional liability is insurance of Care-Plus while the fidelity bond and umbrella liability coverage is insurance of Dental Associates where Care-Plus is listed as an insurer.

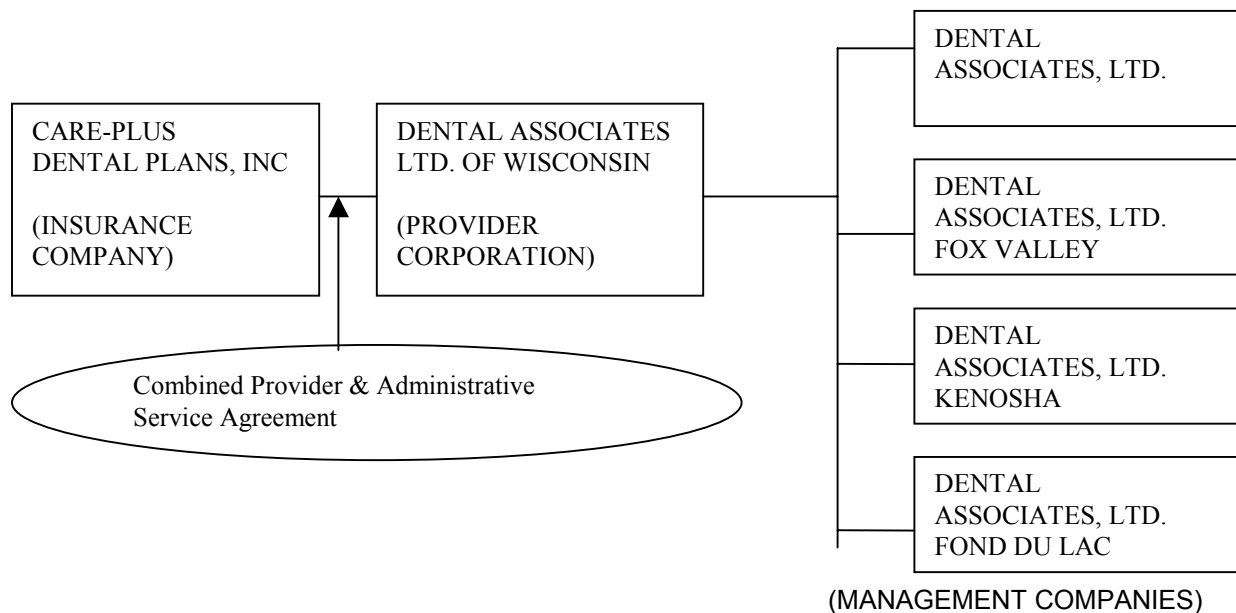
Type of Coverage	Policy Limits
Directors' and officers' liability	\$ 500,000
Professional liability	1,000,000
Fidelity bond	600,000
Umbrella liability	10,000,000

The above coverages are offered through an insurer either licensed in Wisconsin or appearing on the Commissioner's current list of approved surplus line insurers.

IV. AFFILIATED COMPANIES

Dr. John Gonis is the board chairman for Care-Plus, Dental Associates, and each of the four management companies listed in the section of this report titled History and Plan of Operations. Dr. Gonis is also the sole shareholder of the management companies, and a laboratory, Yannis Design, Development & Supplies, Inc., and Dental Associates, which provides all administrative and dental services for Care-Plus. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Care-Plus follows the organizational chart.

**Affiliated Company Chart
As of December 31, 2001**



Care-Plus

As of December 31, 2001, the company's audited financial statement reported assets of \$1,457,206, liabilities of \$1,457,206, and capital and surplus of \$ -0-. Operations for 2001 produced net income/loss of \$ 0.

Dental Associates Ltd. Of Wisconsin

As of December 31, 2001, Dental Associates audited financial statement reported assets of \$31,315,695 liabilities of \$11,358,345, and capital and surplus of \$1,846,424. Operations for 2001 produced a net income of \$604,451.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2001, annual statement to the commissioner of insurance. Also included in this section are schedules, which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Care-Plus Dental Plans, Inc.
Assets
As of December 31, 2001

	Net Admitted Assets
Cash and short-term investments	\$ 2,410
Accident and health premiums due and unpaid	171,780
Amounts due from parent, subsidiaries and affiliates	1,271,444
Prepaid Expenses	<u>11,572</u>
Total assets	<u>\$1,457,206</u>

Care-Plus Dental Plans, Inc.
Liabilities and Net Worth
As of December 31, 2001

Premiums received in advance	\$1,388,835
General expenses due or accrued	67,393
Uncashed Premium Refund Checks	<u>978</u>
Total liabilities	1,457,206
Total capital and surplus	<u>0</u>
Total liabilities, capital and surplus	<u>\$1,457,206</u>

Care-Plus Dental Plans, Inc.
Statement of Revenue and Expenses
As of December 31, 2001

Net premium income		<u>\$14,695,187</u>
Other professional services	<u>14,565,168</u>	
Total medical and hospital	14,565,168	
General administrative expenses	<u>130,019</u>	
Total underwriting deductions		<u>14,695,187</u>
Net income		<u>\$ 0</u>

Growth of the LSHO

The following schedules reflect the growth of the LSHO during the examination period:

Year	Assets	Liabilities	Net Worth	Premium Earned	Medical Expenses Incurred	Net Income
1999	953,500	953,500	0	13,220,455	13,070,342	0
2000	1,159,978	1,159,978	0	14,293,269	14,123,697	0
2001	1,457,206	1,457,206	0	14,695,187	14,565,168	0

Enrollment for the years under examination:

Year	Members
1999	64,366
2000	64,972
2001	61,961

Reconciliation of Net Worth per Examination

The only adjustment to Net Worth that was made based on the examiner's work is contained below.

Examination Reclassification

	Debit	Credit
Premiums Received in Advance	\$899,840	\$
Aggregate Policy Reserves		<u>899,840</u>
Total reclassifications	<u>\$899,840</u>	<u>\$ 899,840</u>

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

Financial

1. Cash and Cash Equivalents - It is again recommended that the company comply with the filing and escheat requirements of ch. 177, Wis. Stat., as regards to unclaimed funds, and that a liability for unclaimed funds be established in future statutory annual statements to account for all old outstanding checks.

Action - Compliance

2. Financial Requirements – It is recommended that the company monitor the sufficiency of financial instruments on file with our office to comply with directives made, pursuant to s. Ins. 3.52 (4)(f), Wis. Adm. Code.

Action - Compliance

Market Conduct

3. Agents – It is recommended that the company execute written contracts with all agents used by the company. In addition, the company should include specific language that the agent will represent the company “in good faith”.

Action – Partial Compliance

4. Advertising – It is again recommended that the LSHO disclose the source statistics used in advertising as required by s. Ins 3.27 (20), Wis. Adm. Code.

Action - Compliance

Summary of Current Examination Results

Disaster Recovery Plan

The examination disclosed that the company does not have a disaster recovery plan. It is recommended that the company develop a continuity disaster recovery plan. The plan should require that it be reviewed and updated and tested annually. The plan should not be limited to IT recovery, but business recovery as a whole.

Conflict of Interest

Per company policy, all Directors and Officers are required to complete conflict of interest statement on an annual basis. The review of the conflict of interest statements revealed in 2000 and 2001 one director did not complete the conflict of interest statement. It is recommended that the company require that all directors and officers complete the conflict of interest statements on an annual basis.

Reporting Requirements

Effective January 1, 2001, LSHO's are required to report financial data on a statutory basis in accordance with the NAIC Accounting Practices and Procedures Manual. The examination disclosed that the LSHO reported an asset for pre-paid expenses. Pursuant to Statement of Statutory Accounting Principles (SSAP) No. 29, pre-paid expenses are to be nonadmitted, however the amount reported fell below materiality and no adjustment to capital and surplus will be made for the purposes of this examination report. It is recommended that the company report the financial information on a statutory basis for future annual statement filings.

Advanced Premium

SSAP 54 defines advance premiums as those premiums that have been received by the reporting entity prior to or on the valuation date which are due after the valuation date. Unearned premium reserves are required for all accident and health contracts for which premiums have been reported for a period beyond the date of valuation other than premiums paid in advance. Per review of advanced premium it was revealed the company incorrectly reported its unearned premiums as advance premiums. The summation of group premiums paid in advance

and unearned premium on individual policies were reported on line 6 of the annual statement (premiums received in advanced). Thus the examiner reclassified the individual advance premiums (line 6 on the annual statement) to aggregate policy reserves (line 4 on the annual statement). It is recommended that the company report its unearned premium as an aggregate policy reserve as required by SSAP 54.

Agents

The review of the LSHO's relationship with its agents revealed the company had formal written contracts with its agents, however, the contracts did not contain specific language that the agent will represent the company "in good faith". It is again recommended that the company include specific language in the agency contracts that the company will represent the company "in good faith".

VII. CONCLUSION

During the period under examination the LSHO has increased its premium by 20% and its membership by 8%. The examination noted that the LSHO's contract with its provider/management company transfers all risk to an affiliated group. Therefore, net income and net worth of the LSHO remains zero from year to year.

The LSHO's prior examination resulted in 2 financial recommendations and 2 market conduct recommendations. The current examination noted the LSHO made improvements with respect to the previous recommendations as all but one was fully complied with. The current examination resulted in five recommendations. These current recommendations were comprised of four new recommendations and one repeat recommendation.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Disaster Recovery Plan—It is recommended that the company develop a continuity disaster recovery plan.
2. Page 15 - Conflict of Interest—It is recommended that the company require that all officers and directors complete the conflict of interest statements on an annual basis.
3. Page 15 - Financial Reporting—It is recommended that the company report the financial information on a statutory basis for future annual statement filings.
4. Page 15 - Advanced Premium—It is recommended that the company report its unearned premium as an aggregate policy reserve as required by SSAP 54.
5. Page 16 - Agents—It is again recommended that the company include specific language in the contracts that the agent will represent the company in “good faith”.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Rick Anderson	Insurance Examiner
Randy Milquet	Insurance Examiner-Advanced

Respectfully submitted,

Bridgot A. Quandt
Examiner-in-Charge
Bureau of Financial Analysis and Examinations